

EAST UNION HOSPITAL SERVICE DISTRICT
Farmerville, Louisiana

REPORT OF EXAMINATION

***For the Years Ended
March 31, 2009 and 2008***

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/24/09

PARRISH • MOODY & FIKES, p.c.
Certified Public Accountants
Waco, Texas



EAST UNION HOSPITAL SERVICE DISTRICT

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2009 AND 2008

TABLE OF CONTENTS

	<u>Page Number</u>
Management's Discussion and Analysis	1 - 4
Independent Auditor's Report	5
Financial Statements:	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8 - 9
Notes to Financial Statements	10 - 16
Other Reports:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 19

EAST UNION HOSPITAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2009 AND 2008

Our discussion and analysis of East Union Hospital Service District's (the "*District*") financial performance provides an overview of the District's financial activities for the fiscal years ending March 31, 2009 and 2008. Please read it in conjunction with the District's financial statements, which begin on page 6.

Financial Highlights

- Net assets in 2009 increased by \$119,361 or 5.4% from 2008.
- Net assets in 2008 increased by \$177,300 or 8.8% from 2007.

Using This Annual Report

The District's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets —

Our analysis of the District finances begins on page 6. One of the most important questions asked about the District's finances is, "What is the District's financial position and how does it compare to prior years?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. One can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the District's tax base, as well as local economic factors to assess the overall health of the District.

The Statement of Cash Flows —

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

EAST UNION HOSPITAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2009 AND 2008

The District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 6. The District's net assets increased by \$119,361 or 5.4% in 2009 and increased by \$177,300 or 8.8% in 2008, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 1,137,498	\$ 830,485	\$ 919,641
Capital assets, net	1,395,009	1,430,919	1,557,735
Other noncurrent assets	210	210	210
Total assets	<u>\$ 2,532,717</u>	<u>\$ 2,261,614</u>	<u>\$ 2,477,586</u>
Liabilities:			
Current portion of long-term debt	\$ -	\$ 63,752	\$ 187,608
Accounts payable	215,961	467	269,883
Total liabilities	<u>215,961</u>	<u>64,219</u>	<u>457,491</u>
Net assets:			
Invested in capital assets net of related debt	1,395,009	1,367,167	1,370,127
Unrestricted	921,747	830,228	649,968
Total net assets	<u>2,316,756</u>	<u>2,197,395</u>	<u>2,020,095</u>
Total liabilities and net assets	<u>\$ 2,532,717</u>	<u>\$ 2,261,614</u>	<u>\$ 2,477,586</u>

EAST UNION HOSPITAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2009 AND 2008

Operating Results and Changes in the District's Net Assets

The District reported operating losses in 2009 of \$(297,573) and in 2008 of \$(216,948), as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:			
Rental revenue	\$ 21,444	\$ 21,444	\$ 20,544
Expenses:			
Operating expenses	44,754	22,036	58,040
Donations to Union General Hospital, Inc.	69,273	20,000	5,000
Depreciation and amortization	204,990	196,356	209,523
Total expenses	<u>319,017</u>	<u>238,392</u>	<u>272,563</u>
Operating income (loss)	<u>(297,573)</u>	<u>(216,948)</u>	<u>(252,019)</u>
Nonoperating revenues and expenses:			
Property tax revenue	392,318	366,047	352,140
Investment income	25,864	30,673	24,248
Interest expense	<u>(1,248)</u>	<u>(2,472)</u>	<u>(3,672)</u>
Total nonoperating revenues (expenses)	<u>416,934</u>	<u>394,248</u>	<u>372,716</u>
Increase (decrease) in net assets	119,361	177,300	120,697
Net assets, beginning of year	<u>2,197,395</u>	<u>2,020,095</u>	<u>1,899,398</u>
Net assets, end of year	<u>\$ 2,316,756</u>	<u>\$ 2,197,395</u>	<u>\$ 2,020,095</u>

EAST UNION HOSPITAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2009 AND 2008

Operating Results and Changes in the District's Net Assets *(Continued)*

Operating Income (Loss) —

The first component of the overall change in the District's net assets is its operating income (loss) - generally, the difference between rental income and the expenses incurred to maintain the facility. In each of the past two years, the District has reported an operating loss. Losses in 2009 increased by \$80,625 or 37.2% over the loss reported in 2008. Operating losses in 2008 decreased by \$35,071 or 13.9% compared to the loss reported in 2007.

The primary reason for the changes in the operating losses in 2009 are:

- An increase in operating expense and an increase in donations to Union General Hospital, Inc.

The primary reason for the changes in the operating losses in 2008 are:

- A decrease in operating expense.

Nonoperating Revenues and Expenses —

Nonoperating revenues consist primarily of property taxes levied by the District and investment earnings. In 2009, property tax revenue increased by \$26,271 or 7.2% compared to the decrease by \$13,907 or 3.9% in 2008.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets - At the end of 2009 and 2008, the District had approximately \$1.4 million and \$1.4 million, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt — At the end of 2009 and 2008, the District had approximately \$0 and \$63,752, respectively, in debt outstanding, as detailed in Note 6 to the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Juanita Sanford, at East Union Hospital Service District, 901 James St., P. O. Box 398, Farmerville, Louisiana.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
East Union Hospital Service District
Farmerville, Louisiana

We have audited the accompanying balance sheets of East Union Hospital Service District (the "District") as of March 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Union Hospital Service District as of March 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Parrish, Moody & Fikes, p.c.

Waco, Texas
September 17, 2009

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EAST UNION HOSPITAL SERVICE DISTRICT**BALANCE SHEETS****MARCH 31, 2009 AND 2008**

Assets	2009	2008
Current assets		
Cash and cash equivalents	\$ 652,977	\$ 343,706
Short-term investments	477,211	479,217
Other current assets	<u>7,310</u>	<u>7,562</u>
Total current assets	<u>1,137,498</u>	<u>830,485</u>
Capital assets		
Land	115,554	115,554
Land improvements	44,453	32,023
Buildings	3,322,418	3,266,518
Equipment	1,679,873	1,629,001
Construction in progress	<u>94,878</u>	<u>45,000</u>
Depreciable capital assets	5,257,176	5,088,096
Accumulated depreciation	<u>(3,862,167)</u>	<u>(3,657,177)</u>
Total capital assets, net	<u>1,395,009</u>	<u>1,430,919</u>
Other assets - Meter deposits	<u>210</u>	<u>210</u>
	<u>\$ 2,532,717</u>	<u>\$ 2,261,614</u>

Liabilities and Net Assets	2009	2008
Current liabilities		
Current portion of long-term debt	\$ -	\$ 63,752
Accounts payable	<u>215,961</u>	<u>467</u>
Total current liabilities	<u>215,961</u>	<u>64,219</u>
Total liabilities	<u>215,961</u>	<u>64,219</u>
Commitments and contingencies		
Net assets		
Invested in capital assets net of related debt	1,395,009	1,367,167
Unrestricted	<u>921,747</u>	<u>830,228</u>
Total net assets	<u>2,316,756</u>	<u>2,197,395</u>
	<u>\$ 2,532,717</u>	<u>\$ 2,261,614</u>

The accompanying notes are an integral part of these financial statements.

EAST UNION HOSPITAL SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008

	2009	2008
Operating revenues		
Rental revenue	\$ 21,444	\$ 21,444
Expenses		
Operating expenses	44,754	22,036
Donations to Union General Hospital, Inc.	69,273	20,000
Depreciation and amortization	204,990	196,356
Total expenses	319,017	238,392
Operating income (loss)	(297,573)	(216,948)
Nonoperating revenues and expenses		
Property tax revenue	392,318	366,047
Investment income	25,864	30,673
Interest expense	(1,248)	(2,472)
Total nonoperating revenues (expenses)	416,934	394,248
Increase (decrease) in net assets	119,361	177,300
Net assets, beginning of year	2,197,395	2,020,095
Net assets, end of year	\$ 2,316,756	\$ 2,197,395

The accompanying notes are an integral part of these financial statements.

EAST UNION HOSPITAL SERVICE DISTRICT

STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

	2009	2008
Cash flows from operating activities		
Rental receipts and payments from operations, net	\$ 21,444	\$ 21,444
Cash paid/received for accounting, publications, utilities and fees	(44,933)	(58,915)
Cash paid to hospital for operating expenses	<u>-</u>	<u>(20,000)</u>
Net cash provided by (used in) operating activities	<u>(23,489)</u>	<u>(57,471)</u>
Cash flows from investing activities		
Investment earnings	26,116	33,183
Sale of noncash investments	<u>2,006</u>	<u>7,789</u>
Net cash provided by (used in) investing activities	<u>28,122</u>	<u>40,972</u>
Cash flows from capital and related financing activities		
Property taxes used for capital activities	65,000	65,000
Principal payments on long-term debt and notes payable	(63,752)	(123,856)
Interest payments on long-term debt and notes payable	(1,248)	(2,472)
Purchase of capital assets	<u>(22,680)</u>	<u>(302,077)</u>
Net cash provided by (used in) capital and related financing activities	<u>(22,680)</u>	<u>(363,405)</u>
Cash flows from noncapital financing activities		
Property taxes	<u>327,318</u>	<u>306,617</u>
Net cash provided by (used in) noncapital financing activities	<u>327,318</u>	<u>306,617</u>
Net increase (decrease) in cash and cash equivalents	309,271	(73,287)
Cash balance, beginning of year	<u>343,706</u>	<u>416,993</u>
Cash balance, end of year	<u>\$ 652,977</u>	<u>\$ 343,706</u>

The accompanying notes are an integral part of these financial statements.

EAST UNION HOSPITAL SERVICE DISTRICT

**STATEMENTS OF CASH FLOWS
(Continued)
FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

	2009	2008
Reconciliation of cash and equivalents to the balance sheets		
Cash and equivalents presented under the following titles:		
Cash and cash equivalents	<u>\$ 652,977</u>	<u>\$ 343,706</u>
Reconciliation of net income to net cash flows from operating activities		
Operating income (loss)	\$ (297,573)	\$ (216,948)
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	204,990	196,356
Changes in assets and liabilities:		
Increase (decrease) in accounts payable and accrued expenses	<u>69,094</u>	<u>(36,879)</u>
Net cash provided by (used in) operating activities	<u>\$ (23,489)</u>	<u>\$ (57,471)</u>

The accompanying notes are an integral part of these financial statements.

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

East Union Hospital Service District (the "*District*") was created by an ordinance of the Union Parish Police Jury on June 8, 1971. The District is a political subdivision of the Union Parish Police Jury whose jurors are elected officials. The District's commissioners are appointed by the Union Parish Police Jury.

Operations

On November 22, 1983, the District leased the facility known as Union General Hospital in Farmerville, Louisiana, as well as all related moveable property, to a newly formed nonprofit corporation named "Union General Hospital, Inc." Union General Hospital, Inc. (the "*Hospital*") is a Louisiana nonprofit corporation, which has received exemption from income taxes as an organization described under section 501(c)(3) of the Internal Revenue Code.

The lease began December 1, 1983, with a "primary term" of three (3) years. Thereafter, unless the District or Hospital gives the other notice to terminate at least twelve months prior to the end of the base or any renewal term, the lease is renewed for five (5) year "renewal terms," under the same terms and conditions controlling the "primary term." The Hospital has agreed to maintain at its expense certain insurance, capital additions, and make necessary and proper repairs in exchange for rent paid to the District.

Since December 1, 1983, when the District discontinued operating the Hospital, its operations consist of administration of the leased facilities, rental of adjoining physicians' offices, collection and administration of tax receipts, and payment of debt service on the public improvement bonds. These bonds were paid in previous years.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards (Continued)

On April 1, 2003, the District adopted the provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended by GASB Statement 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenue, expenses and changes in net assets; and a direct method statement of cash flows. Statement 34 requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

1. **Invested in Capital Assets, Net of Related Debt** — This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted** — This component of net assets consists of net assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or by laws through constitutional provisions or enabling legislation.
3. **Unrestricted** — This component of net assets consists of those assets that do not meet the definition of "restricted" or "invested in capital, net of related debt."

The District also implemented the provisions of GASB Statement 38, *Certain Financial Statement Note Disclosures*, in the accompanying financial statements. The implementation of this statement refined and extended the required disclosures in the financial statements.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures — an amendment of GASB Statement No. 3*, was issued in March 2004, and was adopted by the District for its basic financial statements as of and for the year ended March 31, 2005. This statement modifies the disclosure requirements for custodial credit risk and requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. These risks include interest rate risk, custodial credit risk, and concentrations of credit risk. While this statement did not affect amounts reported in the financial statements of the District, certain note disclosures have been added and or amended including credit ratings of investments, and weighted average maturity of investments. Implementation of this statement has no effect on net assets.

The financial statements have been prepared on the accrual basis and in accordance with guidelines recommended by the Committee on Health Care Institute and Subcommittee on Health Care Matters of the American Institute of Certified Public Accountants. The accrual basis of accounting recognizes revenues when earned rather than when received. Expenses are recognized when incurred rather than when paid.

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation

Certain prior year amounts may have been reclassified in order to be presented comparatively with the current year classifications.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking accounts and certificates of deposit. For the purpose of the statement of cash flows, all cash that is not limited to use with original maturities less than 90 days, is treated as cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

The statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with rental and maintenance of the Hospital facility, the District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to maintain the facility in accordance with agreements, other than financing costs.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets (if any) is capitalized as a component of the cost of acquiring those assets.

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Capital Assets

Capital assets consist of property and equipment and are recorded at the District's cost. Since the inception of the lease, additional items of property and equipment purchased by the District are reflected in the District's financial statements. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives used in computing depreciation follow the lives recommended by the American Hospital Association, which is recognized by the Medicare and Medicaid intermediaries.

Income Taxes

The District is a political subdivision under the laws of the State of Louisiana, and therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 1.6033-2(g)(6) of the Income Tax Regulations, it is not required to file an information return form 990.

Property Tax Revenues

The District levies real estate taxes on all real property on a calendar year basis at a rate enacted by the Board of Commissioners as recommended by the local tax assessor. Property taxes are collected through the local sheriff and remitted, net of collection fees, to the District. The sheriff's office is responsible for collection, including establishing lien, levy, and due dates of the taxes.

2. OFF BALANCE SHEET RISKS AND CONCENTRATIONS OF CREDIT

Concentrations of Credit

The District leases the hospital facilities in Farmerville, Louisiana. The Hospital grants credit on its services to its patients, substantially all of whom are local residents of the Parish. Generally, the Hospital accepts assignments of patients' benefits payable under either public or private insurance programs or policies in lieu of collateral to secure its patient accounts receivable. At March 31, 2009 and 2008, approximately 50% and 46%, respectively, of patient accounts receivable was related to beneficiaries of the Medicare and Medicaid programs. Future changes (if any) occurring within the local economy or the Medicare and Medicaid reimbursement methods can significantly affect the ability of the Hospital to operate the leased facilities.

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

2. OFF BALANCE SHEET RISKS AND CONCENTRATIONS OF CREDIT (Continued)

Bank Accounts

State law requires that bank accounts be collateralized by a pledge of sufficient market value of qualifying securities for amounts invested in excess of the insured amount. Insurance and collateralization at March 31, 2009 and 2008, follows:

	<u>2009</u>	<u>2008</u>
Insured (FDIC)	\$ 644,358	\$ 596,031
Collateralized by pledged securities	<u>485,830</u>	<u>228,341</u>
Total	<u>\$ 1,130,188</u>	<u>\$ 824,372</u>
 Carrying Value	 <u>\$ 1,130,188</u>	 <u>\$ 822,923</u>

Volume of Services

The Hospital is dependent upon local physicians practicing in the immediate service area for its volume of patients. Any decrease in the number of physicians which currently serve the Hospital can significantly affect the Hospital's ability to operate the leased facilities.

3. PROPERTY TAXES

In March 2008, the voters of the District approved the authorization of a ten-year, \$5.56 million, property tax levy, beginning in 2009 and ending in 2018, on all taxable property located within the District. The tax can be used for constructing, maintaining, improving, equipping, and operating the hospital facilities.

4. BOARD MEMBERS

Board members of the District and their compensation for 2009 and 2008 are as follows:

<u>Member</u>	<u>Compensation</u>
Jesse Andrews	None
Vickie Antley	None
Alice Bailey	None
Joel Taylor	None
Bruce Matte	None
Calvin Jones	None
Mary Washington	None

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

5. CAPITAL ASSETS

A summary of capital assets at March 31, 2009 and 2008 follows:

	Balance 03/31/08	Increases	Decreases	Transfers	Balance 03/31/09	Depreciable Lives
Capital assets not being depreciated:						
Land	\$ 115,554	\$ -	\$ -	\$ -	\$ 115,554	
Construction in progress	45,000	94,878	-	(45,000)	94,878	
Total capital assets not being depreciated	160,554	94,878	-	(45,000)	210,432	
Other capital assets:						
Land improvements	32,023	12,430	-	-	44,453	15-20 years
Buildings and improvements	3,266,518	10,900	-	45,000	3,322,418	5-50 years
Equipment	1,629,001	50,872	-	-	1,679,873	3-25 years
Total other capital assets at historical cost	4,927,542	74,202	-	45,000	5,046,744	
Less accumulated depreciation for:						
Land improvements	(17,960)	(2,223)	-	-	(20,183)	
Buildings and improvements	(2,466,559)	(80,429)	-	-	(2,546,988)	
Equipment	(1,172,658)	(122,338)	-	-	(1,294,996)	
Total accumulated depreciation	(3,657,177)	(204,990)	-	-	(3,862,167)	
Other capital assets, net	1,270,365	(130,788)	-	45,000	1,184,577	
Total capital assets, net	\$ 1,430,919	\$ (35,910)	\$ -	\$ -	\$ 1,395,009	

	Balance 03/31/07	Increases	Decreases	Transfers	Balance 03/31/08	Depreciable Lives
Capital assets not being depreciated:						
Land	\$ 65,554	\$ -	\$ -	\$ 50,000	\$ 115,554	
Construction in progress	232,537	30,000	-	(217,537)	45,000	
Total capital assets not being depreciated	298,091	30,000	-	(167,537)	160,554	
Other capital assets:						
Land improvements	32,023	-	-	-	32,023	15-20 years
Buildings and improvements	3,236,518	-	-	30,000	3,266,518	5-50 years
Equipment	1,451,924	39,540	-	137,537	1,629,001	3-25 years
Total other capital assets at historical cost	4,720,465	39,540	-	167,537	4,927,542	
Less accumulated depreciation for:						
Land improvements	(16,152)	(1,808)	-	-	(17,960)	
Buildings and improvements	(2,388,749)	(77,810)	-	-	(2,466,559)	
Equipment	(1,055,920)	(116,738)	-	-	(1,172,658)	
Total accumulated depreciation	(3,460,821)	(196,356)	-	-	(3,657,177)	
Other capital assets, net	1,259,644	(156,816)	-	167,537	1,270,365	
Total capital assets, net	\$ 1,557,735	\$ (126,816)	\$ -	\$ -	\$ 1,430,919	

EAST UNION HOSPITAL SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2009 AND 2008**

5. CAPITAL ASSETS *(Continued)*

At March 31, 2009, construction in progress includes amounts incurred for special projects requested by Union General Hospital. During 2009, special projects requested for 2008 were transferred out of construction in progress and into its designated departments. Construction in progress for 2009 and 2008 was \$94,878 and \$45,000, respectively.

6. LONG-TERM DEBT

A summary of long-term debt at March 31, 2009 and 2008 follows:

	<u>Balance</u> <u>03/31/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>03/31/09</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Note payable to Union General Hospital in annual installments of \$65,000 principal and interest, final payment due March 2009	<u>\$ 63,752</u>	<u>\$ -</u>	<u>\$ (63,752)</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Balance</u> <u>03/31/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>03/31/08</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Note payable to Union General Hospital in annual installments of \$65,000 principal and interest, final payment due March 2009	<u>\$ 187,608</u>	<u>\$ -</u>	<u>\$ (123,856)</u>	<u>\$ 63,752</u>	<u>\$ 63,752</u>

7. COMMITMENTS AND CONTINGENCIES

On March 7, 2005, the District agreed to designate a minimum of \$65,000 per year from tax revenues to be paid annually to Union General Hospital, Inc. for five years. The Hospital is to use these funds in making payments on a bank loan for the purchase of a modular building. The purchase price of the building was \$312,360 and was capitalized as of March 31, 2006. The final payment under this agreement was made during 2009.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
East Union Hospital Service District
Farmerville, Louisiana

We have audited the financial statements of East Union Hospital Service District (the "*District*"), as of and for the year ended March 31, 2009, and have issued our report thereon dated September 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

SIGNIFICANT DEFICIENCIES

Financial Reporting —

Recently issued auditing standards have clarified that the components of internal controls are the same for all entities, regardless of their size or other challenges that are present. Accordingly, auditors are not allowed to give exemptions or special relief to smaller entities when evaluating effective internal control. Certain internal controls that have often been overlooked by small businesses relate to the annual financial reporting process. Annual financial reporting control objectives address the preparation of accurate annual financial statements and related note disclosures in accordance with generally accepted accounting principles. That is to say, the system of internal control over financial reporting does not stop at the District's general ledger. It includes controls over the actual financial statement preparation, including note disclosures.

We have historically drafted the financial statements and related note disclosures at the District's request. This was done because, due to its limited resources, the District decided to focus their financial accounting resources in other areas and utilize auditors to provide the draft financial statements in accordance with the highly technical pronouncements and requirements of generally accepted accounting principles. While we are not questioning the District's abilities to understand, analyze and accept the final financial statements, we cannot be considered part of the District's internal controls. Consequently, the initial preparation of the financial statements and related notes by the auditors is considered a control deficiency. The fact that we prepare the financial statements may give users more confidence that the financial statements are correct; however, it does not eliminate the control deficiency.

It is our responsibility to report this deficiency to increase your awareness of the accounting and auditing regulations; however, management can continue to make a conscious decision to continue to allow the auditors to assist in the drafting of the financial statements. To remedy the control deficiency related to the preparation of the annual financial statements, the District needs to ensure that appropriate personnel are in place and that they have the appropriate knowledge and tools to be an effective element of the internal control process either through training or addition of in-house personnel or through the use of outside consultants other than your auditors. Our responsibility under professional standards includes communicating deficiencies, regardless of management's decisions, as long as the deficiency exists.

Response: The District acknowledges the limitations of the existing staffing levels and as a result we have chosen to allow the audit firm to prepare the financial statements and notes. If employing an outside consultant is deemed necessary, the District would place it on the next agenda for approval.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entities internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The District's response to the findings identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parish, Moody & Fikes, P.C.

Waco, Texas
September 17, 2009